California rolls out welcome mat for road investors

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By Jim Christie - Analysis

SAN FRANCISCO (Reuters) - Billions of dollars of private capital for infrastructure may pile into California with the state, the world's eighth-largest economy, opened to public-private partnerships.

The tie-ups, known as "P3s," had been blocked by state employee unions because they allow private companies to both build and operate public works. But Gov. Arnold Schwarzenegger recently signed a bill allowing state transportation planners to approve unlimited P3 projects through 2017.

Previously, California only allowed up to four of the tie-ups until 2012, with their fate in the hands of the legislature, where political opponents could stall them. That happened last year in Pennsylvania's legislature with a proposed $12.8 billion lease of the Pennsylvania Turnpike to Spain's Abertis Infraestructuras S.A. (ABE.MC: Quote, Profile, Research, Stock Buzz) and Citi Infrastructure Investors.

"What California has done in essence is open the door and put out the welcome mat," said D.J. Gribbin, managing director at Macquarie Capital, a unit of Australian toll-road investor Macquarie Group Ltd (MQG.AX: Quote, Profile, Research, Stock Buzz). "California is a very attractive market because of its size and the number of people out there -- and because of its needs."

Hopes for busy construction sites meeting infrastructure needs across California have been thwarted by increasing strains on traditional financial sources for public works -- taxes, user fees and the municipal debt market.

The market turmoil has been hard on California, which has not sold general obligation bonds since June. The most populous U.S. state's revenues have tumbled due to the recession, while a recent budget standoff of more than 100 days brought the state government to the brink of running out of cash.

Officials responded by clamping down on spending, including for public works. They hope to open the infrastructure spigot when the state resumes market sales of its debt and expect federal stimulus money to help bring projects on line sooner.

But California's needs are so vast it could use even more infrastructure dollars -- most obviously for congested roads, a reason for the bill aimed at highway P3s. "The clearest cases for public-private partnerships have always been made for transportation," said Schwarzenegger adviser David Crane.

FOLLOWING OTHER STATES

California has had to watch other states take the lead on highway P3s, like the 2007 deal in which a Colorado authority leased the Denver-area Northwest Parkway for 99 years to Brisa Auto-Estradas de Portugal S.A. (BRI.LS: Quote, Profile, Research, Stock Buzz) and Brazil's Companhia de Concessoes Rodoviarias (CCRO3.SA: Quote, Profile, Research, Stock Buzz) for $503 million.

Perhaps the best-known U.S. road P3s in recent years were the $1.8 billion lease of the Chicago Skyway and the $3.8 billion lease of the Indiana Toll Road, both to a joint venture between Macquarie Infrastructure Group and Spain's Cintra Concesiones de Infraestructuras de Transporte S.A. (CCIT.MC: Quote, Profile, Research, Stock Buzz)

Another Spanish company looking at U.S. road opportunities is ACS Actividades de Construccion y Servicios S.A. (ACS.MC: Quote, Profile, Research, Stock Buzz). Last week it signed a deal with the Florida

Department of Transportation to build and maintain over 35 years more than 10 miles of freeway, including toll lanes, near Fort Lauderdale. The state's highway department expects $1.2 billion in design and construction spending in the project's first five years.

In Texas, Cintra has led teams of investors that recently won initial approvals to lease two freeways to rebuild their lanes, add toll lanes and manage the roads for 52 years.

"We assume all of the risk and a majority of the heavy investment," said Cintra spokesman Patrick Rhode, adding that Texas will get $6 billion in road work through the deals.

Some of the money for the Texas projects will come from direct equity stakes held by the Dallas Police & Fire Pension System that should return at least 8.5 percent annually after 10 years, said Richard Tettamant, the fund's administrator.

He said the stakes are the first direct P3 infrastructure investments by a U.S. public pension fund, and "we are open to investing in any type of infrastructure ... anywhere."

Other pension funds seeking stable returns for long-term obligations may be interested as well, said Joel Moser, lead partner in the infrastructure practice at Fulbright & Jaworski in New York. "We're talking about trillions of dollars in equity that could potentially flow into this sector," he said.

While P3 deals have grown trickier amid the credit crunch, investor interest is holding up and the California bill may add to it, said John Ma, head of the infrastructure banking group at Goldman Sachs: "There has been and remains considerable investor appetite, particularly on the equity investor side."